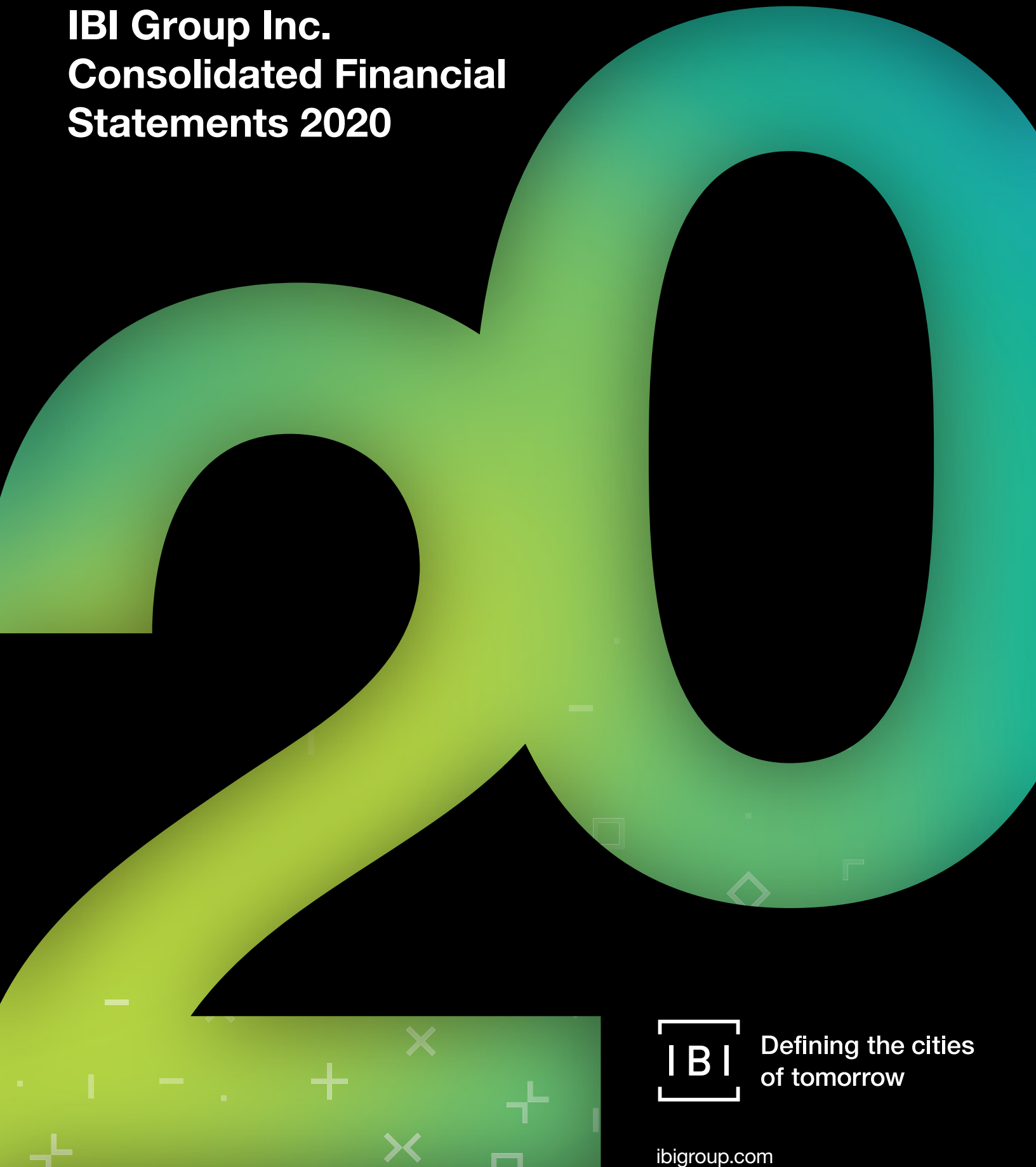


**IBI Group Inc.
Consolidated Financial
Statements 2020**



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CONSOLIDATED FINANCIAL STATEMENTS OF

IBI GROUP INC.

YEARS ENDED DECEMBER 31, 2020 AND 2019



KPMG LLP
100 New Park Place, Suite 1400
Vaughan, ON, L4K 0J3
Canada

Telephone (905) 265-5900
Fax (905) 265-6390
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of IBI Group Inc.

Opinion

We have audited the consolidated financial statements of IBI Group Inc. (the Entity), which comprise:

- the consolidated statement of financial position as at December 31, 2020 and December 31, 2019
- the consolidated statement of income and comprehensive income for the years then ended
- the consolidated statement of cash flows for the years then ended
- the consolidated statement of changes in equity (deficit) for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.



Evaluation of total expected professional costs to complete fixed price contracts for revenue recognition

Description of the matter

We draw attention to notes 2(e) and 3(a) to the financial statements. The Entity recorded net revenues for the year ended December 31, 2020 of \$393,210 thousand. The Entity recognizes revenue on performance obligations in fixed price contracts satisfied over time with reference to professional costs incurred to date as a percentage of total expected professional costs for each performance obligation. Estimating total expected professional costs is subjective and requires the use of the Entity's best estimate based on the information available at that point in time.

Why the matter is a key audit matter

We identified the evaluation of total expected professional costs to complete fixed price contracts for revenue recognition as a key audit matter. This matter represented an area of significant risk of material misstatement due to the magnitude of the balance and the high degree of subjectivity and estimation uncertainty in determining the total expected professional costs to be incurred for each performance obligation. Significant auditor judgment was required in evaluating the results of our audit procedures over the estimation of total expected professional costs.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter.

We evaluated the design and tested the operating effectiveness of certain controls over the Entity's review of total expected professional costs to complete fixed price contracts for revenue recognition. These controls included application controls related to the Entity's IT system and management review controls over the analysis of contract assets.

For a selection of revenue contracts:

- We inquired of the personnel in charge of the project over project status to evaluate progress to date and inspected source documentation such as contracts, change orders and correspondences to assess the total expected professional costs by performance obligation with respect to the contract
- We evaluated the total expected professional costs to be incurred on the remaining performance obligations by comparing the costs incurred subsequent to year-end to the total expected professional costs
- We evaluated the total expected professional costs to be incurred on the remaining performance obligations by comparing the hourly rate incurred before and after year-end.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.



- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Glossy Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.



Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Elliot Marer.

Vaughan, Canada

March 11, 2021

IBI GROUP INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		DECEMBER 31,	DECEMBER 31,
(thousands of Canadian dollars)	NOTES	2020	2019
ASSETS			
Current Assets			
Cash	6(c)	\$ 32,728	\$ 15,628
Accounts receivable	6(c), 12(b)	127,347	109,581
Contract assets		68,137	63,385
Prepaid expenses and other current assets		20,575	14,436
Lease receivable	17	2,167	476
Income taxes recoverable		2,817	1,421
Total Current Assets		\$ 253,771	\$ 204,927
Restricted cash	6(c), 12(c)	2,992	3,047
Property and equipment	7	20,731	21,620
Goodwill	8, 16	3,384	—
Intangible assets	8	11,356	9,620
Lease receivable	17	3,320	6,252
Right-of-use assets	17	55,413	63,390
Investment		333	199
Deferred tax assets	9	8,427	9,248
TOTAL ASSETS		\$ 359,727	\$ 318,303
LIABILITIES AND DEFICIT			
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	6(c)	57,979	45,180
Contract liabilities		61,022	41,387
Income taxes payable		1,069	780
Lease liability	17	14,099	13,289
Deferred consideration	6(c)	1,504	490
Convertible debentures	6(b)	46,000	—
Other financial liabilities	6(c)	730	—
Total Current Liabilities		\$ 182,403	\$ 101,126
Credit facilities	6(a)	—	50,328
Senior unsecured debentures	6(b)	43,186	—
Convertible debentures	6(b)	—	39,768
Other financial liabilities	6(c)	—	2,842
Lease liability	17	57,729	66,758
Deferred consideration	6(c)	1,241	1,241
Deferred tax liabilities	9	5,913	4,702
TOTAL LIABILITIES		\$ 290,472	\$ 266,765
EQUITY			
Shareholders' Equity			
Share capital	11	280,080	279,993
Capital reserve	11	4,913	4,205
Contributed surplus	11	7,958	7,958
Deficit		(234,184)	(248,907)
Accumulated other comprehensive loss		(6,059)	(5,427)
Total Shareholders' Equity		\$ 52,708	\$ 37,822
Non-controlling interest	11	16,547	13,716
TOTAL EQUITY		\$ 69,255	\$ 51,538
TOTAL LIABILITIES AND EQUITY		\$ 359,727	\$ 318,303

See accompanying notes to the consolidated financial statements.

IBI GROUP INC.

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(thousands of Canadian dollars, except per share amounts)		NOTES	2020	2019
Revenue				
Gross Revenue		\$	505,077	\$ 460,458
Less: Subconsultants and direct costs			111,867	83,605
NET REVENUE		\$	393,210	\$ 376,853
Expenses				
Salaries, fees and employee benefits	10, 19		278,440	264,168
Variable lease expense			10,086	8,555
Other operating expenses			41,040	45,390
Foreign exchange (gain) loss	12(a)		1,196	1,278
Amortization of intangible assets	8		2,837	2,051
Depreciation of property and equipment	7		5,754	5,141
Depreciation of right-of-use assets	17		12,815	12,506
Change in fair value of other financial liabilities	6(b)		(2,112)	(1,152)
Impairment of financial assets	12(b)		3,142	2,598
Impairment of right-of-use assets	17		782	268
			353,980	340,803
OPERATING INCOME		\$	39,230	\$ 36,050
Interest expense, net	12(a), 14		14,884	12,426
Other finance costs	14		820	872
FINANCE COSTS		\$	15,704	\$ 13,298
NET INCOME BEFORE TAX		\$	23,526	\$ 22,752
Current tax expense	9		3,719	4,214
Deferred tax expense	9		2,126	1,689
INCOME TAXES		\$	5,845	\$ 5,903
NET INCOME		\$	17,681	\$ 16,849
OTHER COMPREHENSIVE INCOME				
Items that are or may be reclassified to profit or loss				
Gain (loss) on translating financial statements of foreign operations			(759)	(4,119)
OTHER COMPREHENSIVE INCOME (LOSS)			(759)	(4,119)
TOTAL COMPREHENSIVE INCOME		\$	16,922	\$ 12,730
NET INCOME ATTRIBUTABLE TO:				
Common shareholders			14,723	14,028
Non-controlling interests	11		2,958	2,821
NET INCOME		\$	17,681	\$ 16,849
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Common shareholders			14,091	10,599
Non-controlling interests	11		2,831	2,131
TOTAL COMPREHENSIVE INCOME		\$	16,922	\$ 12,730
EARNINGS PER SHARE ATTRIBUTABLE TO COMMON SHAREHOLDERS				
Basic and diluted earnings per share	11	\$	0.47	\$ 0.45

See accompanying notes to the consolidated financial statements.

IBI GROUP INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(thousands of Canadian dollars)

	NOTES	2020	2019
CASH FLOWS PROVIDED BY (USED IN)			
OPERATING ACTIVITIES			
Net income		\$ 17,681	\$ 16,849
Items not affecting cash:			
Depreciation of property, equipment	7	5,754	5,141
Amortization of intangible assets	8	2,837	2,051
Depreciation of right of use assets	17	12,815	12,506
Amortization of deferred financing costs	14	414	457
Impairment of financial assets	12(b)	3,142	2,598
Impairment of right of use assets	17	782	268
Foreign exchange loss	12(a)	1,196	1,278
Interest expense, net	14	14,884	12,426
Deferred tax expense	9	2,126	1,689
Share based compensation	19	1,120	1,474
Deferred share units issued	18	401	461
Change in fair value of deferred share units	18	(1,159)	567
Loss on disposal of property and equipment	7	-	(246)
Non-cash change in lease receivable		-	46
Change in fair value of other financial liabilities	6(b)	(2,112)	(1,152)
Redemption of performance share units	19	(383)	-
Interest paid		(8,545)	(9,819)
Income taxes received (paid)		(4,925)	(4,693)
Change in non-cash operating working capital net of acquisition	13	7,644	8,257
NET CASH FLOWS PROVIDED BY (USED IN)			
OPERATING ACTIVITIES		\$ 53,672	\$ 50,158
CASH FLOWS PROVIDED BY (USED IN)			
FINANCING ACTIVITIES			
Draws (Payments) on principal of credit facilities	6(a)	(52,600)	(25,025)
Payments on principal of consent fee		-	-
Issuance of Senior unsecured debenture	6(b)	46,000	-
Costs from issuance of hybrid debenture	6(b)	(2,921)	-
Deferred financing costs	6(a)	-	(84)
Net payment of lease liabilities	17	(12,621)	(5,871)
Proceeds from shares issued	11	58	67
NET CASH FLOWS USED IN		\$ (22,084)	\$ (30,913)
CASH FLOWS PROVIDED BY (USED IN)			
INVESTING ACTIVITIES			
Purchase of property and equipment	7	(4,087)	(8,952)
Purchase of intangible assets	8	(2,328)	(2,074)
Increase in investment		(134)	(199)
Purchase of Cole engineering Ltd	16	(7,742)	-
Restricted cash	12(c)	11	-
NET CASH FLOWS USED IN		\$ (14,280)	\$ (11,225)
Effects of currency translation on cash and cash equivalents	12(a)	(208)	(1,852)
NET (DECREASE) INCREASE IN CASH		\$ 17,100	\$ 6,168
Cash, beginning of period		15,628	9,460
CASH, END OF PERIOD		\$ 32,728	\$ 15,628

See accompanying notes to the consolidated financial statements.

IBI GROUP INC.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIT)

<i>(thousands of Canadian dollars)</i>	NOTES	2020	2019
SHARE CAPITAL			
Share capital, beginning of period		\$ 279,993	\$ 279,926
Shares issued	11	\$ 87	\$ 67
SHARE CAPITAL, END OF PERIOD		\$ 280,080	\$ 279,993
CAPITAL RESERVE			
Capital reserve, beginning of period		\$ 4,205	\$ 2,731
Stock options granted	11	\$ 732	\$ 897
Stock options exercised	11	\$ (29)	\$ (22)
Performance share units granted	11	\$ 388	\$ 599
Performance share units redeemed	19	\$ (383)	\$ -
CAPITAL RESERVE, END OF PERIOD		\$ 4,913	\$ 4,205
CONTRIBUTED SURPLUS			
Contributed surplus, beginning of period		\$ 7,958	\$ 7,958
CONTRIBUTED SURPLUS, END OF PERIOD		\$ 7,958	\$ 7,958
DEFICIT			
Deficit, beginning of period, as reported		\$ (248,907)	\$ (258,204)
Adjustments from prior period		-	(4,731)
Deficit, beginning of period, as adjusted		\$ (248,907)	\$ (262,935)
Net income attributable to common shareholders		14,723	14,028
DEFICIT, END OF PERIOD		\$ (234,184)	\$ (248,907)
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Accumulated other comprehensive loss, beginning of period		\$ (5,427)	\$ (1,998)
Other comprehensive income (loss) attributable to common shareholders		(632)	(3,429)
ACCUMULATED OTHER COMPREHENSIVE LOSS, END OF PERIOD		\$ (6,059)	\$ (5,427)
TOTAL SHAREHOLDERS' EQUITY		\$ 52,708	\$ 37,822
NON-CONTROLLING INTEREST			
Non-controlling interest, beginning of period		\$ 13,716	\$ 11,585
Total comprehensive income attributable to non-controlling interests	11	2,831	2,131
NON-CONTROLLING INTEREST, END OF PERIOD		\$ 16,547	\$ 13,716
TOTAL EQUITY, END OF PERIOD		\$ 69,255	\$ 51,538

See accompanying notes to the consolidated financial statements.

NOTE 1: ORGANIZATION AND DESCRIPTION OF THE BUSINESS

IBI Group Inc. (the "Company") is a company incorporated pursuant to the provisions of the Canada Business Corporations Act (the "CBCA") on September 30, 2010 and is the successor to IBI Income Fund (the "Fund"), an unincorporated, open-ended limited purpose trust established under the laws of Ontario.

The Fund was created on July 23, 2004, to indirectly acquire the outstanding Class A partnership units of IBI Group Partnership ("IBI Group"), a general partnership formed and carrying on business under the laws of the Province of Ontario. As at December 31, 2020, the Company's common share capital consisted of 31,265,044 (December 31, 2019 – 31,240,044) issued and outstanding shares. Each common share entitles the holder to one vote at all meetings of shareholders.

IBI Group also issued Class B partnership units to IBI Group Management Partnership (the "Management Partnership"), the entity that carried on the operations of the Fund prior to its acquisition by the Fund. The Class B partnership units of IBI Group are indirectly exchangeable for common shares on the basis of one share of the Company for each Class B partnership unit. Class B partnership units do not entitle the holder to voting rights at the meetings of shareholders of the Company.

If all of the outstanding Class B partnership units were converted to common shares, the number of outstanding common shares as at December 31, 2020 would be 37,547,266 (December 31, 2019 – 37,522,266). If the Class B partnership units were converted, the Management Partnership and affiliated partnerships would hold 35.9% of the voting shares as at December 31, 2020 (December 31, 2019 – 35.7%).

The table below summarizes the ownership of the Company by the Management Partnership and affiliated partnerships as at December 31, 2020:

	NUMBER OF UNITS HELD	PERCENTAGE OF TOTAL OWNERSHIP
Class B partnership units and non-participating voting shares held by the Management Partnership	6,282,222	16.73%
Common shares held by the Management Partnership and affiliated partnerships	7,184,701	19.14%

Through IBI Group, the Company is a global design and technology firm, who provides of a broad range of professional services focused on the physical development of cities. IBI Group's business is concentrated in three main areas of development, being intelligence, buildings and infrastructure. The professional services provided by IBI Group include planning, design, implementation, analysis of operations and other consulting and technology services related to these three main areas of development.

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

The table below summarizes the trading symbols of the Company's securities which are listed on the Toronto Stock Exchange ("TSX") as at December 31, 2020:

SECURITY	TRADING SYMBOL
Common shares	"IBG"
5.5% convertible debentures, \$46,000 principal, convertible at \$8.35 per share, redeemed on January 15, 2021 ("5.5% Debentures")	"IBG.DB.D"
6.5% listed senior unsecured debentures, \$46,000 principal, matures on December 31, 2025 ("6.5% Debentures")	"IBG.DB.E"

The Company's registered head office is 55 St. Clair Ave. West, 7th Floor, Toronto, Ontario, M4V 2Y7.

NOTE 2: BASIS OF PREPARATION**(a) STATEMENT OF COMPLIANCE**

These consolidated financial statements of the Company and its subsidiaries (the "consolidated group") have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on March 10, 2021.

(b) BASIS OF MEASUREMENT

These consolidated financial statements were prepared on a going concern basis. Amounts are recorded under the historical cost convention, except for certain other financial liabilities, change in stock compensation related expenses measured at fair value through profit or loss ("FVTPL") and cash and restricted cash are measured at fair value on the balance sheet.

(c) BASIS OF CONSOLIDATION**SUBSIDIARIES**

Subsidiaries are entities over which the Company has control. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in these consolidated financial statements from the date that effective control commences and are de-consolidated from the date control ceases.

JOINT ARRANGEMENTS

The Company performs the majority of its construction projects through wholly owned subsidiary entities, which are fully consolidated. However, a number of projects, particularly some larger, multi-year, multi-

disciplined projects, are executed through partnering agreements. As such, the classification of these entities as a subsidiary, joint operation, joint venture or associate requires judgment by management to analyze the various indicators that determine whether control exists. In particular, when assessing whether a joint arrangement should be classified as either a joint operation or a joint venture, management considers the contractual rights and obligations, voting shares, share of board members and the legal structure of the joint arrangement. Subject to reviewing and assessing all the facts and circumstances of each joint arrangement, joint arrangements contracted through agreements and general partnerships would generally be classified as joint operations whereas joint arrangements contracted through corporations would be classified as joint ventures. All current partnering arrangements are classified as joint operations.

The Company recognizes its assets, liabilities and transactions in relation to its proportionate share of joint operations in these consolidated financial statements.

TRANSACTIONS ELIMINATED ON CONSOLIDATION

Transactions, balances, income and expenses incurred within the consolidated group are eliminated in full on consolidation.

NON-CONTROLLING INTEREST

Non-controlling interest in IBI Group is exchangeable into common shares of the Company. Changes in the equity of IBI Group and distributions to the non-controlling interest are recorded in non-controlling interest.

(d) FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in Canadian dollars, which is the currency of the primary economic environment in which the Company and its Canadian subsidiaries, including IBI Group, operate (the “functional currency”).

Each of the Company’s subsidiaries determines its functional currency, and items included in the financial statements of each subsidiary are measured using that functional currency. The Company’s foreign operations are translated into its reporting currency (Canadian dollar) as follows: assets and liabilities are translated at the rate of exchange in effect at the date of the consolidated statement of financial position, and items of revenues and expenses are translated at the average rate of exchange for the period. The resulting unrealized exchange gains and losses on foreign subsidiaries are recognized in accumulated other comprehensive income (“AOCI”).

Transactions in foreign currencies are translated to the functional currency of the respective entity at exchange rate in effect on the date of the transaction. Foreign exchange gains and losses on such transactions, as well as from the translation of monetary assets and liabilities not denominated in the functional currency of the respective entity, are recorded in earnings. On disposal, or partial disposal, of a foreign entity, or repatriation of the net investment in a foreign entity, resulting in a loss of control, significant influence or joint control, the cumulative translation recognized in AOCL relating to that particular foreign entity is recognized in earnings as part of the gain or loss on sale. On a partial disposition of a subsidiary that does not result in a loss of control, the amounts are reallocated to the non-controlling interest in the foreign operation based on their proportionate share of the cumulative amounts recognized in AOCL. On partial disposition of jointly controlled foreign entities or associates,

the proportionate share of translation differences previously recognized in AOCI are reclassified to earnings.

References to “\$” in these consolidated financial statements denote Canadian dollars and references to “U.S\$” are to U.S dollars.

All amounts presented in Canadian dollars have been rounded to the nearest thousand.

(e) USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of these consolidated financial statements requires management to exercise judgment and make estimates and assumptions that affect the application of accounting policies on reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the consolidated statement of financial position, and the reported amounts of revenue and expenses for the period covered by the consolidated statement income and comprehensive income. Actual amounts may differ from these estimates.

Within the context of these consolidated financial statements, a judgment is a decision made by management in respect of the application of an accounting policy, a recognized or unrecognized financial statement amount and/or note disclosure, following an analysis of relevant information that may include estimates and assumptions. Estimates and assumptions are used mainly in determining the measurement of balances recognized or disclosed in these consolidated financial statements and are based on a set of underlying data that may include management’s historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Management continually evaluates the estimates and judgments it uses.

Information about judgments made in applying accounting policies that have the most significant impact on the amounts recognized in these consolidated financial statements as well as significant assumptions used to measure estimates are as follows:

REVENUE RECOGNITION

The Company recognizes revenue on performance obligations in fixed price contracts satisfied over time with reference to professional costs incurred to date as percentage of total expected professional costs for each performance obligation. Estimating total expected professional costs is subjective and requires the use of management’s best estimate based on the information available at that point in time. Changes in the estimates are reflected in the period in which they are made and would affect the Company’s revenue and contract assets.

IMPAIRMENT OF ACCOUNTS RECEIVABLE

In each stage of the impairment model, impairment is determined based on the probability that the accounts receivable will not be collectable. The application of the expected credit loss model requires management to apply the following significant judgements, assumptions, and estimations:

- Movement of impairment measurement between the three stages of the expected credit loss model, based on the assessment of increase credit risks on receivables. The assessment changes in credit risks includes qualitative and quantitative factors of the accounts, such as historical credit loss.

- Thresholds for significant increase in credit risks based on the changes in probability of loss over the expected life of the instrument relative to initial recognition; and
- Forecasts of future economic conditions.

DETERMINING PROBABLE FUTURE UTILIZATION OF TAX LOSS CARRYFORWARDS

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and the level of future taxable profits, together with future tax-planning strategies.

REVALUATION OF DERIVATIVE LIABILITY

The Company has recognized a convertible debenture as a hybrid financial instrument which includes a derivative liability component. The derivative liability requires a remeasurement at each reporting period to its fair value. Factors and assumptions which affect the fair value remeasurement of the derivative include the bond market price, risk free interest rate, credit spread and IBI share price.

GOODWILL AND INTANGIBLE ASSETS

The value in use of goodwill and intangible assets has been estimated using forecasts prepared by management. The key assumptions for the estimate are relating to revenue growth, earnings before interest, taxes, depreciation and amortization ("EBITDA") margin, tax rates, discount rates and the level of working capital required to support the business. These estimates are based on past experience and management's expectations of future changes in the market and forecasted growth initiatives.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) REVENUE RECOGNITION

REVENUE RECOGNITION

The Company enters into contracts with clients to provide professional services in three main areas intelligence, buildings and infrastructure. The professional services range from planning, design, implementation, analysis of operations and other consulting services as required by the customer.

The Company has determined that the customer controls contract assets as the deliverables are being created and they lack an alternative use to the Company. The Company's standard contracting templates entitles the Company to an enforceable right to reimbursement of costs incurred to the cancellation date including a reasonable profit margin. Revenue from these contracts are recognized over-time as services are rendered with invoices being issued based on the billing terms of the contract. Uninvoiced amounts are recognized as contract assets.

Certain contracts will include multiple deliverables and can span more than one fiscal period. Management applies judgement when assessing whether certain deliverables in a customer arrangement should be included or excluded as a separate performance obligation, and the allocation of transaction price to each identified performance obligation.

The Company recognizes revenue on performance obligations in fixed price contracts satisfied over time with reference to expected professional costs incurred to date as percentage of total expected professional costs for each performance obligation. Estimating total expected professional costs is subjective and requires the use of management's best estimate based on the information available at that point in time. Changes in the estimates are reflected in the period in which they are made and would affect the Company's revenue and contract assets.

DISAGGREGATION OF REVENUE

The Company considers economic factors that may impact the nature, amount, timing and uncertainty of revenue and cash flows on a geographical basis.

CONTRACT BALANCES

The contract assets primarily relate to the Company's rights to consideration for services rendered but not billed at the report date. The contract assets are transferred to accounts receivable when the rights become unconditional. This usually occurs when the Company issues an invoice to the customer. The contract liabilities relate to the advance consideration received from customers, for which revenue is recognized over time.

COMMITTED REVENUE

At the end of December 31, 2020, the Company has \$577,769 of work that is committed to performance obligations for the next five years.

AS AT DECEMBER 31, 2020					
	2021	2022	2023	2024	2025
Total committed revenue	\$ 349,311	\$ 121,887	\$ 66,412	\$ 32,827	\$ 7,332

(b) CONTRACT ASSETS AND CONTRACT LIABILITIES

Contract asset represents the fee revenue and recoverable disbursements which have not been billed but are expected to be billed and collected from clients for contract work performed to date, and is valued at estimated net realizable value.

Billings in excess of time value incurred on jobs in progress, for which future services will be provided, are included in contract liabilities in the consolidated statement of financial position.

An allowance account is also maintained on work in process, measured by the estimated amount of professional costs that are expected not to be invoiced. When contract assets are not recoverable due to collection risks, the amount is written off in the reserve for contract assets.

(c) CASH

Cash is comprised of cash on hand and short term deposits. Cash balances, which the Company has the ability and intent to offset, are used to reduce reported bank indebtedness and fund operations.

(d) PROPERTY AND EQUIPMENT

Items of property and equipment are measured at cost less accumulated depreciation, net of accumulated impairment losses, and amortized over their estimated useful lives as follows:

ASSET	BASIS	RATE
Office furniture and equipment	Diminishing balance	20%
Computer equipment	Straight line	2 years
Vehicles	Diminishing balance	20%
Leasehold improvements	Straight line	Term of lease

Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted if appropriate.

The cost of repairs and maintenance of property and equipment are recognized as an expense as incurred.

(e) LEASES

The Company assesses at contract inception whether a contract is a lease or contains a lease; that is, if the contract conveys the right to control the use of an identified asset for a time period in exchange for consideration. The Company recognizes right of use assets and lease liabilities for all leases, except for leases of low-value assets and short-term leases with a term of 12 months or less. The lease payments associated with those exempted leases are recognized in variable lease expense and other operating expenses lines of the statement of profit and loss on a straight-line basis over the lease term. The right of use asset is recognized at the commencement date of the lease and initially measured at cost, which is comprised of the amount of the initial lease liability recognized less any incentives received from the lessor. Lease asset cost also includes any initial direct costs incurred, lease payments made before the commencement date, and estimated restoration costs. The right of use asset is subsequently depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is recognized at the commencement date of the lease and initially measured at the present value of lease payments to be made over the lease

term. Lease payments relate to base rent of office space and equipment with the non-lease components expensed through the variable lease expense and other operating expenses lines of the statement of profit and loss. Vehicle lease payments include non-lease components in the determination of the lease liability. The lease liability is discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. The Company has applied judgement to determine the incremental borrowing rate and the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which affects the amount of lease liabilities and right-of-use assets recognized.

(f) GOODWILL AND INTANGIBLE ASSETS

Goodwill arising in a business combination is recognized as an asset at the date control is acquired. Goodwill is subsequently measured at cost less accumulated impairment losses. Goodwill is not amortized but is tested for impairment at least annually, more frequently if certain indicators arise that indicate the asset might be impaired. Goodwill is allocated to the cash generating units ("CGUs") that are expected to benefit from the synergies of the acquisition.

Intangible assets are initially recorded at fair value at their acquisition date and stated at cost less accumulated amortization and net impairment losses, where applicable. The cost of intangible assets with determinable lives is amortized over the period in which the benefits of such assets are expected to be realized as follows:

ASSET	BASIS	AMORTIZATION PERIOD
Customer relationships	Straight line	8-10 years
Contracts backlog	Straight line	1-2 years
ERP Systems	Straight line	10 years
Backlog	Straight line	2 years
Internally generated products	Straight line	5 years

(g) IMPAIRMENT OF NON-FINANCIAL ASSETS

The Company evaluates the recoverability of property and equipment, intangible and right of use assets with determinable lives for impairment at the end of each reporting period. If there are indicators of impairment, a review is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts.

The determination of recoverable amount is based on the higher of value in use or fair value less costs to sell.

For the purposes of assessing impairment where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash generating unit ("CGU") to which the asset belongs is estimated. A CGU is the smallest identifiable group of assets for which there are separately identifiable cash inflows.

The carrying amount of a CGU includes the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, and are expected to generate the future cash inflows.

An impairment loss is recognized in the consolidated statement of comprehensive income when a CGU's carrying amount exceeds its recoverable amount. The impairment loss is allocated on a pro rata basis to the assets in the CGU.

For property and equipment, intangible and right of use assets with determinable useful lives, an impairment loss is reversed only to the extent that the asset's carrying value does not exceed the carrying value that would have been determined, net of amortization, had no impairment loss been recognized.

(h) IMPAIRMENT OF FINANCIAL ASSETS

The Company recognizes a loss allowance for expected credit losses (ECL's) on financial assets based on a 12-month ECL or lifetime ECL. The lifetime ECL (simplified approach) is applied to accounts receivable. ECL's are based on the difference between contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive.

The loss allowance provision is based on the Company's historical collection and loss experience and incorporates forward looking factors, where appropriate.

(i) BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method, and the results of operations after the date of acquisition are included in the consolidated statement of income and comprehensive income. Acquisition-related costs are expensed when incurred in other operating expenses. The cost of an acquisition is measured as the consideration transferred at fair value at the acquisition date. Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. In accordance with IFRS 3 *Business Combinations* the Company has one year from the date of the acquisition to finalize the purchase equation.

(j) INCOME TAXES

Income tax expense consists of current tax charge and the change in deferred tax assets and liabilities. Current tax and deferred tax is recognized in the consolidated statement of comprehensive income except to the extent that it relates to a business combination, or to items recognized directly in equity or other comprehensive loss.

Current tax represents the current tax payable (receivable) on the taxable income for the period, calculated in accordance with the rates and legislation of the respective tax jurisdiction in which the Company operated, enacted or substantively enacted as at the date of the consolidated statement of financial position; it also reflects any adjustment resulting from new information to taxes payable (recoverable) in respect of previous years.

Deferred tax assets and liabilities are recognized in respect of the expected income tax consequences attributable to temporary differences between the financial statement carrying values of existing assets and liabilities in the consolidated statement of financial position and their respective income tax bases. Deferred tax assets and liabilities are measured using enacted, or substantively enacted, tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of comprehensive income in the period that includes the date of enactment or of substantive enactment of the future tax rates.

Deferred tax assets are recognized for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are evaluated at each reporting period and are reduced to the extent that it is no longer probable that future taxable profits will be available against which they can be utilized.

(k) SHARE-BASED COMPENSATION*Cash settled transactions*

The Company has a share-based compensation plan ("Deferred Share Plan") which allows directors to receive director fees in the form of deferred shares rather than cash. These awards are accounted for as liabilities at FVTPL. On the grant date, the deferred shares are measured at fair value based on the market price with subsequent changes to the fair value recorded as salaries, fees and employee benefit expenses until settled.

*Equity settled transactions**Stock options*

The grant date fair value of share based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. An option valuation model is used to fair value the stock options on the grant date. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Performance share units

The grant date fair value of share based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. A Monte Carlo valuation model is used to fair value the stock options on the grant date. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. The vesting and performance conditions are determined by the Board of Directors at the time of each grant.

(I) FINANCIAL INSTRUMENTS

Financial assets

Accounts receivable that do not have a significant financing component are initially measured at the transaction price determined in accordance with *IFRS 15*. Purchase and sales of financial assets are accounted for at trade dates.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity (in accordance with the substance of the contractual arrangement). An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded net of direct issue costs.

Debt securities issued and other liabilities are recognized at fair value on the date that they originated. Other financial liabilities are recognized initially on the trade date at which the Company becomes party to the contractual provisions on the instrument. Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost.

Financial liabilities at FVTPL

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

Financial liabilities at amortized cost

These financial liabilities are recognized initially at fair value, net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are carried at amortized cost using the effective interest rate method.

Compound financial instruments

Compounded financial instruments issued by the Company consist of convertible debentures that can be converted into share capital at the option of the holder. The liability component of a compound financial instrument is measured initially at fair value, calculated as the net present value of the liability without conversion option and using a discount rate reflective of liability instrument without a conversion factor. The equity and derivative liability component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component.

Any directly attributable transaction costs are allocated to the liability, derivative liability, and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The derivative liability component is remeasured subsequent to initial recognition at fair value. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition. Upon derecognition, the equity component of a compound financial instrument is reclassified to contributed surplus.

DERECOGNITION OF FINANCIAL INSTRUMENTS

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or when the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the assets. Any interest in transferred assets that are created or retained by the Company is recognized as a separate asset or liability.

A financial liability is derecognized when the underlying contractual obligation is legally discharged, cancelled or expires.

The following table summarizes the classification and sequent measurement of the Company's financial assets and liabilities:

FINANCIAL INSTRUMENT	CLASSIFICATION
FINANCIAL ASSETS	
Cash	FVTPL
Restricted cash	FVTPL
Accounts receivable	Loans and receivables
FINANCIAL LIABILITIES	
Accounts payable and accrued liabilities	Other liabilities
Deferred share plan liability	FVTPL
Due to related parties	Other liabilities
Finance lease obligation	Other liabilities
Credit facilities	Other liabilities
Convertible debentures – liability component	Other liabilities
Other financial liability	FVTPL
Deferred consideration	FVTPL

NOTE 4: CHANGES IN ACCOUNTING POLICIES

FUTURE ACCOUNTING POLICIES

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On January 23, 2020 the IASB issued amendments to IAS 1 *Presentation of Financial Statements*, to clarify the classification of liabilities as current or non-current. The amendments are effective for annual periods on or after January 1, 2023 with early adoption permitted. The extent of the impact of the change has not yet been determined.

Reference to the Conceptual Framework (Amendments to IFRS 3)

On May 14, 2020, the IASB issued References to the Conceptual Framework (Amendments to IFRS 3). The announcements update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with early adoption permitted.

NOTE 5: SEGMENT INFORMATION

The Company is a global design and technology firm, multi-disciplinary provider of a broad range of professional services focused on the physical development of cities. The Company considers the basis on which it is organized, including geographic areas and service offerings, in identifying its reportable segments.

(a) OPERATING SEGMENTS

Operating segments of the Company are defined as components for which separate financial information is available that is evaluated regularly in allocating resources and assessing performance.

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)***(b) GEOGRAPHIC SEGMENTS**

The following table demonstrates certain information contained in the consolidated statement of financial position segmented geographically as at December 31, 2020, with comparatives as at December 31, 2019:

	AS AT DECEMBER 31, 2020				
	CANADA	UNITED STATES	UNITED KINGDOM	OTHER INTERNATIONAL	TOTAL
Property and equipment	\$ 15,041	\$ 4,424	\$ 634	\$ 632	\$ 20,731
Goodwill	3,384	-	-	-	3,384
Intangible assets	10,587	653	116	-	11,356
Contract assets	36,877	15,370	2,958	12,932	68,137
Contract liabilities	30,912	20,744	5,098	4,268	61,022
Total assets	208,085	81,340	21,361	48,941	359,727
Right-of-use assets	34,741	15,054	4,508	1,110	55,413
Lease receivable	3,518	1,823	-	146	5,487
Total assets excluding the impact of IFRS 16 transition	169,826	64,463	16,853	47,685	298,827

	AS AT DECEMBER 31, 2019				
	CANADA	UNITED STATES	UNITED KINGDOM	OTHER INTERNATIONAL	TOTAL
Property and equipment	\$ 14,833	\$ 5,112	\$ 888	\$ 787	\$ 21,620
Intangible assets	8,356	1,035	229	-	9,620
Contract assets	28,901	14,325	3,808	16,351	63,385
Contract liabilities	26,913	8,263	3,559	2,652	41,387
Total assets	163,668	85,129	19,094	50,412	318,303
Right-of-use assets	40,024	19,039	2,582	1,745	63,390
Lease receivable	4,056	2,672	-	-	6,728
Total assets excluding the impact of IFRS 16 transition	119,588	63,418	16,512	48,667	248,185

The following table demonstrates certain information contained in the consolidated statement of income and comprehensive income segmented geographically for the year ended December 31, 2020 and 2019. The unallocated amounts for the year ended December 31, 2020 and 2019 pertain to interest on debentures, accretion expense on debentures, amortization of deferred financing costs, long term debt interest, change in fair value of other financial liabilities, and change in fair value of deferred share units.

IBI GROUP INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share and share amounts)

YEAR ENDED DECEMBER 31, 2020							
	CANADA	UNITED STATES	UNITED KINGDOM	OTHER INTERNATIONAL	UNALLOCATED CORPORATE COSTS ¹	TOTAL	
Gross Revenues	\$ 271,974	\$ 167,549	\$ 33,689	\$ 31,865	\$ -	\$ 505,077	
Less: subconsultants and direct expenses	40,910	52,273	6,781	11,903	-	111,867	
Net revenue	\$ 231,064	\$ 115,276	\$ 26,908	\$ 19,962	\$ -	\$ 393,210	
Adjusted EBITDA ²	\$ 30,633	\$ 13,794	\$ 1,470	\$ (163)	\$ -	\$ 45,734	
Items excluded in calculation of Adjusted EBITDA ² :							
Interest expense, net	2,398	1,030	107	492	10,857	14,884	
Amortization and depreciation	11,090	7,399	1,576	1,341	-	21,406	
Foreign exchange (gain) loss	1,024	63	42	67	-	1,196	
Change in fair value of other financial liabilities	-	-	-	-	(2,112)	(2,112)	
Change in fair value of deferred share units	-	-	-	-	1,159	1,159	
Payment of DSP	-	-	-	-	(184)	(184)	
Stock based compensation	660	33	11	28	-	732	
Performance share units	388	-	-	-	-	388	
Payment of performance share units	(383)	-	-	-	-	(383)	
Deferred financing charges	-	-	-	-	414	414	
IFRS 16 lease accounting adjustment	(7,895)	(5,474)	(1,264)	(659)	-	(15,292)	
Net income (loss) before tax	\$ 23,351	\$ 10,743	\$ 998	\$ (1,432)	\$ (10,134)	\$ 23,526	
YEAR ENDED DECEMBER 31, 2019							
	CANADA	UNITED STATES	UNITED KINGDOM	OTHER INTERNATIONAL	UNALLOCATED CORPORATE COSTS ¹	TOTAL	
Gross revenues	\$ 250,348	\$ 144,165	\$ 31,909	\$ 34,036	\$ -	\$ 460,458	
Less: subconsultants and direct expenses	29,477	37,090	4,778	12,260	-	83,605	
Net revenue	\$ 220,871	\$ 107,075	\$ 27,131	\$ 21,776	\$ -	\$ 376,853	
Adjusted EBITDA ²	\$ 32,458	\$ 6,580	\$ 341	\$ 2,647	\$ -	\$ 42,026	
Items excluded in calculation of Adjusted EBITDA ² :							
Interest expense, net	2,494	1,259	164	114	8,395	12,426	
Amortization and depreciation	9,749	7,189	1,790	970	-	19,698	
Foreign exchange (gain) loss	194	(504)	(127)	1,715	-	1,278	
Change in fair value of other financial liabilities	-	-	-	-	(1,152)	(1,152)	
Change in fair value of deferred share units	-	-	-	-	567	567	
Payment of DSP	-	-	-	-	-	-	
Stock based compensation	790	55	9	43	-	897	
Performance share units	599	-	-	-	-	599	
Deferred financing charges	-	-	-	-	457	457	
IFRS 16 lease accounting adjustment	(7,308)	(6,309)	(1,184)	(695)	-	(15,496)	
Net income (loss) before tax	\$ 25,940	\$ 4,890	\$ (311)	\$ 500	\$ (8,267)	\$ 22,752	

¹ Unallocated corporate costs represent costs not associated with a particular operating segment and are borne by the Company as a whole. These costs include interest on credit facility, interest and accretion on convertible debentures, the change in fair value on other financial liabilities, the change in fair value in deferred share units, and the amortization of deferred financing costs associated with the credit facilities.

² As defined in the credit facilities agreement, references to "Adjusted EBITDA" is to earnings before interest, income taxes, depreciation and amortization; adjusted for gain/loss arising from extraordinary, unusual or non-recurring items; acquisition costs and deferred consideration revenue; non-cash expenses; gain/loss realized upon the disposal of capital property; gain/loss on foreign exchange translation; gain/loss on purchase or redemption of securities issued; gain/loss on fair valuation of financial instruments; amounts attributable to minority equity investments; IFRS lease accounting adjustments; and interest income.

IBI GROUP INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars, except per share and share amounts)
(c) BUSINESS UNIT SEGMENTS

The following table demonstrates certain information contained in the consolidated statement of income and comprehensive income segmented by business unit for the year ended December 31, 2020 and 2019. The Company does not consider the business unit segments to be an important factor in the management of the business in regards to the consolidated statement of financial position.

<i>(in thousands of Canadian dollars)</i>						
YEAR ENDED DECEMBER 31, 2020						
<i>(unaudited)</i>	INTELLIGENCE	BUILDINGS	INFRASTRUCTURE	CORPORATE	TOTAL	
Gross revenues	\$ 96,934	264,890	142,382	871	\$	505,077
Less: subconsultants and direct expenses	17,474	64,122	30,235	36		111,867
Net revenue	\$ 79,460	\$ 200,768	\$ 112,147	\$ 835	\$	393,210
Adjusted EBITDA ¹	\$ 16,079	32,613	9,899	(12,857)	\$	45,734
Items excluded in calculation of Adjusted EBITDA ¹ :						
Interest expense, net	537	1,625	1,641	11,081		14,884
Amortization and depreciation	4,177	9,564	6,611	1,054		21,406
Foreign exchange (gain) loss	(98)	449	208	637		1,196
Change in fair value of other financial liabilities	-	-	-	(2,112)		(2,112)
Change in fair value of deferred share units	-	-	-	1,159		1,159
Payment of DSP	-	-	-	(184)		(184)
Stock based compensation	90	92	112	438		732
Performance share units	-	-	-	388		388
Payment of performance share units	-	-	-	(383)		(383)
Deferred financing charges	-	-	-	414		414
IFRS 16 lease accounting adjustment	(2,466)	(7,119)	(4,961)	(746)		(15,292)
Net income before tax	\$ 13,839	\$ 28,002	\$ 6,288	\$ (24,603)	\$	23,526

<i>(in thousands of Canadian dollars)</i>						
YEAR ENDED DECEMBER 31, 2019						
<i>(unaudited)</i>	INTELLIGENCE	BUILDINGS	INFRASTRUCTURE	CORPORATE	TOTAL	
Gross revenues	\$ 87,908	\$ 242,441	\$ 129,470	\$ 639	\$	460,458
Less: subconsultants and direct expenses	19,095	45,738	18,605	167		83,605
Net revenue	\$ 68,813	\$ 196,703	\$ 110,865	\$ 472	\$	376,853
Adjusted EBITDA ¹	\$ 10,060	\$ 31,140	\$ 11,532	\$ (10,706)	\$	42,026
Items excluded in calculation of Adjusted EBITDA ¹ :						
Interest expense, net	651	1,911	1,195	8,669		12,426
Amortization and depreciation	3,663	9,546	5,637	852		19,698
Foreign exchange (gain) loss	995	(8)	301	(10)		1,278
Change in fair value of other financial liabilities	-	-	-	(1,152)		(1,152)
Change in fair value of deferred share units	-	-	-	567		567
Payment of DSP	-	-	-	-		-
Stock based compensation	120	103	187	487		897
Performance share units	-	-	-	599		599
Deferred financing charges	-	-	-	457		457
Onerous lease	(2,644)	(7,573)	(4,232)	(1,047)		(15,496)
Net income before tax	\$ 7,275	\$ 27,161	\$ 8,444	\$ (20,128)	\$	22,752

¹ As defined in the credit facilities agreement, references to "Adjusted EBITDA" is to earnings before interest, income taxes, depreciation and amortization; adjusted for gain/loss arising from extraordinary, unusual or non-recurring items; acquisition costs and deferred consideration revenue; non-cash expenses; gain/loss realized upon the disposal of capital property; gain/loss on foreign exchange translation; gain/loss on purchase or redemption of securities issued; gain/loss on fair valuation of financial instruments; amounts attributable to minority equity investments; IFRS lease accounting adjustments; and interest income. Adjusted EBITDA is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS, and the Company's method of calculating Adjusted EBITDA may differ from the methods used by other similar entities.

NOTE 6: FINANCIAL INSTRUMENTS**(a) INDEBTEDNESS**

On September 27, 2018, IBI Group entered into an amended agreement on its credit facilities extending the maturity date to September 27, 2022, and increasing the swing line facility maximum available amount to \$20,000. The total revolver facility remains unchanged at \$130,000. As at December 31, 2020, the interest rate on Canadian dollar borrowings was 2.45% (December 31, 2019 – 4.95%). As at December 31, 2020, the Company has no U.S dollar borrowings (December 31, 2019 – 5.75%).

As at December 31, 2020, IBI Group has borrowings of \$nil (December 31, 2019 - \$51,566) under the credit facilities on the balance sheet. Deferred financing charges of \$920 are recorded under prepaid expenses and other current assets (December 31, 2019 - \$1,238 recorded under credit facilities). As at December 31, 2020 the Company has borrowed \$nil USD (December 31, 2019 - \$10,000 USD) under a swing line facility with a carrying value as at December 31, 2020 of \$nil CAD (December 31, 2019 - \$13,066).

As at December 31, 2020, IBI Group has letters of credit outstanding of \$10,811 (December 31, 2019 - \$3,953), of which \$10,068 (December 31, 2019 - \$3,537) is issued under a \$20,000 facility which matures on June 30, 2021 and supports letters of credit back stopped by Export Development Canada. Advances under the revolver facility bear interest at a rate based on the Canadian dollar prime rate, LIBOR or Banker's Acceptance rates plus, in each case, an applicable margin. At December 31, 2020, \$nil was outstanding under Bankers' Acceptance (December 31, 2019 - \$51,566).

As at December 31, 2020, IBI Group has surety bonds outstanding of \$4,554 (December 31, 2019 - \$4,554), with Liberty Mutual Insurance. These bonds are security agreements necessary to backstop certain Intelligence projects in the U.S segment.

This facility is subject to compliance with certain financial, reporting and other covenants. The financial covenants under the agreement include a leverage ratio, interest coverage ratio, and restrictions on distributions, if certain conditions are not met. IBI Group was in compliance with its credit facility covenants as at December 31, 2020.

Continued compliance with the covenants under the amended credit facilities is dependent on IBI Group achieving revenue forecasts, continued profitability, executing contracts for clients and continued monitoring of working capital. Market conditions are difficult to predict and there is no assurance that IBI Group will achieve its forecasts. In the event of non-compliance, IBI Group's lenders have the right to demand repayment of the amounts outstanding under the lending agreements or pursue other remedies if IBI Group cannot reach an agreement with its lenders to amend or waive the financial covenants. As in the past, IBI Group will carefully monitor its compliance with the covenants and will seek waivers, subject to lender approval, as may become necessary from time to time.

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

	AS AT	
	DECEMBER 31, 2020	DECEMBER 31, 2019
Balance at January 1	\$ 50,328	\$ 75,548
Payments on principal of credit facilities	(52,600)	(25,025)
Cash movement	\$ (2,272)	\$ 50,523
Deferred financing capitalization	-	(84)
Amortization of deferred financing costs	414	457
Transfer to prepaid expenses and other current assets	920	-
Impact of foreign exchange	938	(568)
Non-cash movement	\$ 2,272	\$ (195)
Ending Balance	\$ -	\$ 50,328

(b) CONVERTIBLE DEBENTURES

	LIABILITY COMPONENT	OTHER FINANCIAL LIABILITY COMPONENT	TOTAL
5.5% Debentures (redeemed on January 15, 2021)			
Balance at December 31, 2019	\$ 39,768	\$ 2,842	\$ 42,610
Accretion of 5.5% Debentures	6,232	-	6,232
Change in fair value of other financial liabilities	\$ -	(2,112)	(2,112)
BALANCE, DECEMBER 31, 2020	\$ 46,000	\$ 730	\$ 46,730

6.5% Debentures (matures on December 31, 2025)

Balance at December 31, 2019	\$ -	\$ -	\$ -
Issuance of 6.5% senior unsecured debentures principal	\$ 46,000	\$ -	\$ 46,000
Transaction costs associate with the issuance	\$ (2,921)	\$ -	\$ (2,921)
Accretion of 6.5% Debentures	107	-	107
BALANCE, DECEMBER 31, 2020	\$ 43,186	\$ -	\$ 43,186

5.5% DEBENTURES (\$46,000 PRINCIPAL, REDEEMED ON JANUARY 15, 2021)

In September 2016, the Company issued 5.5% Debentures of \$46,000 with a maturity date of December 31, 2021. The 5.5% Debentures are convertible into common shares of the Company at the option of the holder at a conversion price of \$8.35 per common share. The 5.5% Debentures are not redeemable at the option of the Company before December 31, 2019. The 5.5% Debentures are redeemable by the Company at a price of \$1,000 per 5.5% Debenture, plus accrued and unpaid interest, on or after December 31, 2019 and prior to December 31, 2020 (provided that the volume weighted average trading price of the shares of the Company on the TSX for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given, is not less than 125% of the conversion price of \$8.35 per share). On or after December 31, 2020 and prior to the maturity date, the 5.5% Debentures are redeemable by the Company at a price of \$1,000 per 5.5% Debenture, plus accrued and unpaid interest. The 5.5% Debentures bear at 5.5% per annum, payable in equal semi-annual payments in arrears on June 30th and December 31st of each year.

The 5.5% Debentures are recorded as a hybrid financial instrument. The non-derivative debt (interest and principal portion) was recorded at fair value on the date of issue and was recognized at \$32,498 which was net of deferred financing costs of \$2,594, estimated using discounted future cash flows at an estimated discount rate of 11.5%. Subsequently the non-derivative debt component is measured at amortized cost using the effective interest method over the life of the debenture.

The derivative component of this hybrid financial instrument representing the conversion feature of the 5.5% Debentures was measured at fair value of \$10,908 at the date of issuance, and recorded as part of other financial liabilities in the consolidated statement of financial position. This conversion feature is unique to this issuance of convertible debt given IBI has the right to settle any request to convert debentures to IBI shares by the Debenture holders for an equivalent amount of cash. As at December 31, 2020, the fair value of the derivative component was \$730 (December 31, 2019 - \$2,842). The movement in fair value is impacted by several factors which include IBI share price, the Canadian risk free rate and IBI's credit risk.

On December 15, 2020, the Company issued a redemption notice pursuant to the convertible debenture indenture dated September 2016 (the "Indenture") to redeem the entire aggregate principle amount of its outstanding 5.5% convertible unsecured subordinated debentures due December 31, 2021 and having a conversion price of \$8.35 per common share, which are listed for trading on the Toronto Stock Exchange under symbol "IBG.DB.D" in accordance with the terms of the Debentures. IBI will satisfy its obligation to pay to the holders of the Debentures the Redemption Price in cash through available funds. The Debentures were redeemed on January 15, 2021 (Redemption Date) for a total consideration of \$47,638. The total redemption amount payable for each \$ principal amount of the Debentures equals a redemption price of \$1 plus all accrued and unpaid interest up to but excluding the Redemption Date.

6.5% DEBENTURES (\$46,000 PRINCIPAL, MATURES ON DECEMBER 31, 2025)

On October 02, 2020, the Company issued 6.5% senior, unsecured Debentures of \$46,000 with a maturity date of December 31, 2025. The Debentures bear interest at the rate of 6.5% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2020. The intended use of the net proceeds is to repay the 5.5% Debentures.

On or after December 31 2023, but prior to December 31, 2024, the 6.5% Debentures are redeemable, in whole or in part from time to time at the option of the Company at a price equal to 103.25% of the principal amount of the Debentures redeemed plus accrued and unpaid interest. On or after December 31, 2024 but prior to the maturity date of December 31, 2025, the Debentures are redeemable at a price equal to their principal amount plus accrued and unpaid interest.

On redemption or at maturity on December 31, 2025, the Company has the option to repay the debentures in either cash or freely tradable voting shares of the Company obtained by dividing \$1 by 95% of the current market price of the share on the date fixed for redemption or the maturity date.

In the event of a change in control, as defined in the indenture, on or after December 31, 2023 but before December 31, 2024, the Company will be required to make an offer to the holders of the debentures to repurchase the debentures at a price equal to 103.25% of the principal amount plus accrued and unpaid interest. On or after December 31, 2024 the price is equal to the principal plus accrued and unpaid interest.

Each embedded feature was evaluated separately and it was determined that the economic and risk characteristics are not closely related to the host contract. It has been assessed that the identified embedded derivative as at the date of issuance and December 31, 2020 had nominal value and therefore were not accounted for as separate financial instruments.

The 6.5% Debentures were therefore recorded as a financial instrument. The debt was recorded at carrying value of \$46,000 net of deferred financing costs of \$2,921.

The 6.5% Debentures are measured subsequently at amortized cost using the effective interest method over the life of the debenture.

The fair value of the debentures as at December 31, 2020, based on a Level 1 quoted market price, is as follows:

	Carrying Value		Fair Value
5.5% Debentures	\$	46,000	\$ 46,000
6.5% Debentures		43,186	46,920
BALANCE, DECEMBER 31, 2020	\$	89,186	\$ 92,920

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

The fair value of the convertible debentures as at December 31, 2019, based on a Level 1 quoted market price, is as follows:

	Carrying Value	Fair Value
5.5% Debentures	\$ 39,768	\$ 46,598
BALANCE, DECEMBER 31, 2019	\$ 39,768	\$ 46,598

(c) FINANCIAL ASSETS AND LIABILITIES

The fair values of accounts receivable, current and non-current lease receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their short-term maturity. The fair value of the credit facilities approximate its carrying amount due to the variable rate of interest.

The carrying amount of the Company's financial instruments as at December 31, 2020 are as follows:

	FINANCIAL ASSETS AND LIABILITIES AT FVTPL	AMORTIZED COST	TOTAL
FINANCIAL ASSETS			
Cash	\$ 32,728	\$ -	\$ 32,728
Restricted cash	2,992	-	2,992
Accounts receivable	-	127,347	127,347
Investment	333	-	333
TOTAL	\$ 36,053	\$ 127,347	\$ 163,400
FINANCIAL LIABILITIES			
Accounts payable and accrued liabilities	\$ -	\$ 53,894	\$ 53,894
Deferred share plan liability	4,085	-	4,085
Credit facilities	-	-	-
Debentures	-	89,186	89,186
Other financial liabilities	730	-	730
Deferred consideration	2,745	-	2,745
TOTAL	\$ 7,560	\$ 143,080	\$ 150,640

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

The carrying amount of the Company's financial instruments as at December 31, 2019 are as follows:

	FINANCIAL ASSETS AND LIABILITIES AT FVTPL	AMORTIZED COST	TOTAL
FINANCIAL ASSETS			
Cash	\$ 15,628	\$ -	15,628
Restricted cash	3,047	-	3,047
Accounts receivable	-	109,581	109,581
Investment	199	-	199
TOTAL	\$ 18,874	\$ 109,581	\$ 128,455
FINANCIAL LIABILITIES			
Accounts payable and accrued liabilities	\$ -	\$ 42,471	42,471
Deferred share plan liability	2,709	-	2,709
Credit facilities	-	50,328	50,328
Convertible debentures	-	39,768	39,768
Other financial liabilities	2,842	-	2,842
Deferred consideration	1,731	-	1,731
TOTAL	\$ 7,282	\$ 132,567	\$ 139,849

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

The following tables summarize the Company's fair value hierarchy for those assets and liabilities that are measured at fair value on a recurring basis as at December 31, 2020 and December 31, 2019:

AS AT DECEMBER 31, 2020				
	LEVEL 1	LEVEL 2	LEVEL 3	
Cash	\$ 32,728	\$ -	\$ -	
Restricted cash	2,992	-	-	
Investment	-	-	333	
Deferred share plan liability	-	(4,085)	-	
Other Financial Liabilities	-	(730)	-	
Deferred consideration	-	-	(2,745)	
	\$ 35,720	\$ (4,815)	\$ (2,412)	

AS AT DECEMBER 31, 2019				
	LEVEL 1	LEVEL 2	LEVEL 3	
Cash	\$ 15,628	\$ -	\$ -	
Restricted cash	3,047	-	-	
Investment	-	-	199	
Deferred share plan liability	-	(2,709)	-	
Other Financial Liabilities	-	(2,842)	-	
Deferred consideration	-	-	(1,731)	
	\$ 18,675	\$ (5,551)	\$ (1,532)	

NOTE 7: PROPERTY AND EQUIPMENT

The following table presents the Company's property and equipment as at December 31, 2020 and 2019:

		OFFICE FURNITURE AND EQUIPMENT	COMPUTER EQUIPMENT	VEHICLES	LEASEHOLDS	TOTAL
COST						
January 1, 2019	\$	13,084	\$ 17,259	\$ 437	18,628	\$ 49,408
Additions		1,417	1,447	-	6,088	8,952
Disposals		(46)	-	-	-	(46)
Foreign currency translation gain / (loss)		(247)	(214)	(8)	(124)	(593)
December 31, 2019	\$	14,208	\$ 18,492	\$ 429	24,592	\$ 57,721
Additions		569	2,127	114	1,635	4,445
Additions through business combinations		282	201	15	-	498
Foreign currency translation gain / (loss)		(66)	(34)	(2)	(35)	(137)
DECEMBER 31, 2020	\$	14,993	\$ 20,786	\$ 556	26,192	\$ 62,527

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

		OFFICE FURNITURE AND EQUIPMENT	COMPUTER EQUIPMENT	VEHICLES	LEASEHOLDS	TOTAL
ACCUMULATED DEPRECIATION						
January 1, 2019	\$	8,527	\$ 14,777	\$ 332	\$ 7,688	\$ 31,324
Depreciation		1,022	1,843	63	2,213	5,141
Foreign currency translation (gain)		(147)	(172)	(6)	(39)	(364)
December 31, 2019	\$	9,402	\$ 16,448	\$ 389	\$ 9,862	\$ 36,101
Depreciation		1,405	1,887	38	2,424	5,754
Foreign currency translation loss / (gain)		(45)	(26)	3	9	(59)
DECEMBER 31, 2020	\$	10,762	\$ 18,309	\$ 430	\$ 12,295	\$ 41,796

NET CARRYING AMOUNT

DECEMBER 31, 2019	\$	4,806	\$ 2,044	\$ 40	\$ 14,730	\$ 21,620
DECEMBER 31, 2020	\$	4,231	\$ 2,477	\$ 126	\$ 13,897	\$ 20,731

Loss on disposal of property and equipment of \$nil as at December 31, 2020 (December 31, 2019 - \$46) is reflected in other operating expenses on the Statement of Comprehensive Income.

Additions to leasehold improvements as at December 31, 2020 of \$1,635 related to renovations on new office spaces.

NOTE 8: INTANGIBLE ASSETS

The following table presents the Company's intangible assets as at December 31, 2020 and 2019:

	ERP SYSTEM	CLIENT RELATIONSHIPS	BACKLOG	GOODWILL	INTERNALLY GENERATED PRODUCTS	TOTAL
COST						
January 1, 2019	\$ 6,786	\$ 5,592	\$ -	\$ -	\$ 1,505	\$ 13,883
Additions	382	2,247	-	-	1,017	3,646
Foreign currency translation gain /(loss)	-	(185)	-	-	-	(185)
December 31, 2019	\$ 7,168	\$ 7,654	\$ -	\$ -	\$ 2,522	\$ 17,344
Additions	239	154	-	-	1,935	2,328
Additions through business combinations	-	1,077	949	3,384	215	5,625
Foreign currency translation gain / (loss)	-	(78)	-	-	-	(78)
DECEMBER 31, 2020	\$ 7,407	\$ 8,807	\$ 949	\$ 3,384	\$ 4,672	\$ 25,219

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

	ERP SYSTEM	CLIENT RELATIONSHIPS	BACKLOG	GOODWILL	INTERNALLY GENERATED PRODUCTS	TOTAL
ACCUMULATED AMORTIZATION						
January 1, 2019	\$ 1,528	\$ 3,313	\$ -	\$ -	\$ 953	\$ 5,794
Amortization	852	892	-	-	307	2,051
Foreign currency translation gain / (loss)	-	(121)	-	-	-	(121)
December 31, 2019	\$ 2,380	\$ 4,084	\$ -	\$ -	\$ 1,260	\$ 7,724
Amortization	899	1,272	92	-	574	2,837
Foreign currency translation gain / (loss)	-	(82)	-	-	-	(82)
DECEMBER 31, 2020	\$ 3,279	\$ 5,274	\$ 92	\$ -	\$ 1,834	\$ 10,479

NET CARRYING AMOUNT

DECEMBER 31, 2019	\$ 4,788	\$ 3,570	\$ -	\$ -	\$ 1,262	\$ 9,620
DECEMBER 31, 2020	\$ 4,128	\$ 3,533	\$ 857	\$ 3,384	\$ 2,838	\$ 14,740

NOTE 9: INCOME TAXES

The major components of income tax expense includes the following:

	YEAR ENDED DECEMBER 31,	
	2020	2019
CURRENT TAX EXPENSE		
Current period	\$ 2,748	\$ 4,251
Provision to file / withholding taxes	971	(37)
	3,719	4,214
DEFERRED TAX EXPENSE / (RECOVERY)		
Origination and reversal of temporary differences	4,615	3,299
Change in tax rates	(134)	(80)
Adjustment for prior periods	360	(133)
Change in unrecognized deductible temporary differences	(2,715)	(1,397)
	2,126	1,689
TOTAL TAX EXPENSE / (RECOVERY)	\$ 5,845	\$ 5,903

The provision for income taxes in the consolidated statement of income and comprehensive income represents an effective tax rate different than the Canadian enacted or substantively enacted statutory rate of approximately 26.5% (December 31, 2019 – 26.5%). The differences are as follows:

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

	YEAR ENDED	
	DECEMBER 31,	
	2020	2019
Net income	\$ 17,681	\$ 16,849
Total tax expense / (recovery)	5,845	5,903
Net income before tax	\$ 23,526	\$ 22,752
Income tax using the Company's domestic tax rate	\$ 6,234	\$ 6,029
Income tax effect of:		
Non-deductible expenses	2,578	1,847
Change in deferred tax rates	(134)	(80)
Gain/loss on financial derivative	(734)	(256)
Operating in jurisdictions with different tax rates	(158)	(88)
Change in unrecognized temporary differences	(2,715)	(1,398)
Prior period adjustments to current tax	(58)	99
Prior period adjustments to deferred tax	360	(133)
Withholding taxes	537	(136)
Other	(65)	19
INCOME TAX EXPENSE / (RECOVERY)	\$ 5,845	\$ 5,903

The applicable tax rate is the aggregate of the Canadian Federal income tax rate of 15% (2019 – 15%) and the Provincial income tax rate of 11.5% (2019 – 11.5%).

UNRECOGNIZED DEFERRED TAX LIABILITIES

As at December 31, 2020, taxable temporary differences related to investments in subsidiaries were not recognized because the Company controls the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)***UNRECOGNIZED DEFERRED TAX ASSETS**

Deferred tax assets have not been recognized in respect of the following gross temporary differences:

	YEAR ENDED DECEMBER 31,	
	2020	2019
Deductible temporary differences	\$ -	\$ 7,284
Tax losses – Federal	5,815	1,706
Tax losses – State	12,104	39,419
	\$ 17,919	\$ 48,409

The tax effected amount of unrecognized gross temporary differences is as follows:

	YEAR ENDED DECEMBER 31,	
	2020	2019
Deductible temporary differences	\$ -	\$ 1,930
Tax losses – Federal	1,352	347
Tax losses – State	539	2,244
	\$ 1,891	\$ 4,521

Deferred tax assets are recognized for operating loss carry forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. As at December 31, 2020, the Company's affiliated entities have \$23,452 of Federal and \$37,038 of U.S State operating loss carry forwards (December 31, 2019 - \$22,335 and \$39,419 respectively) available for income tax purposes, which expire in the years 2023 through 2038. The ability of the Company to realize the tax benefits of the loss carry forwards is contingent on many factors, including the ability to generate future taxable profits in the jurisdictions in which the tax losses arose.

The Company regularly assesses the status of open tax examinations and its historical tax filing positions for the potential for adverse outcomes to determine the adequacy of the provision for income and other

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

taxes. The Company believes that it has adequately provided for any tax adjustments that are more likely than not to occur as a result of ongoing tax examinations or historical filing positions.

The tax effect of temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases that give rise to significant portions of the deferred tax assets at December 31, 2020 and December 2019 are presented below.

RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

YEAR ENDED DECEMBER 31, 2020			
	ASSETS	LIABILITIES	TOTAL
Property and equipment	\$ 937	\$ (2,034)	\$ (1,097)
Non-capital loss	5,235	-	5,235
Reserves	1,084	(3,405)	(2,321)
Financing costs	-	(281)	(281)
Intangible assets	258	(94)	164
IFRS 16 lease receivables and lease liabilities	270	(55)	215
Other	643	(44)	599
	\$ 8,427	\$ (5,913)	\$ 2,514

YEAR ENDED DECEMBER 31, 2019			
	ASSETS	LIABILITIES	TOTAL
Property and equipment	\$ 757	\$ (1,737)	\$ (980)
Non-capital loss	4,262	-	4,262
Reserves	1,061	(2,484)	(1,423)
Financing costs		(321)	(321)
Intangible assets	2,709	(110)	2,599
IFRS 16 lease receivables and lease liabilities	217	-	217
Other	242	(50)	192
	\$ 9,248	\$ (4,702)	\$ 4,546

NOTE 10: RELATED PARTY TRANSACTIONS

Pursuant to the Administration Agreement, IBI Group and certain of its subsidiaries are paying to the Management Partnership an amount representing the base compensation for the services of the partners of the Management Partnership. The amount paid for such services during the year ended December 31, 2020 was \$13,961 (year ended December 31, 2019 - \$14,680). As at December 31, 2020, there were 40 partners (December 31, 2019 – 46 partners). As at December 31, 2020, the amount payable to the Management Partnership was \$nil (December 31, 2019 - \$nil).

IBI Group from time to time makes a monthly distribution to each Class B partnership unit holder equal to the dividend per share (on a pre-tax basis) declared to each shareholder. All of the Class B partnership units are held by the Management Partnership.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

The Company's key management personnel are comprised of members of the executive team, to the extent that they have the authority and responsibility for planning, directing and controlling the day-to-day activities of the Company. The Company also provides compensation to the members of the Board of Directors.

		YEAR ENDED	
		DECEMBER 31,	
		2020	2019
Directors fees, salaries and other short-term employee benefits	\$	6,613 \$	4,449
Share-based compensation		1,258	1,589
Total compensation	\$	7,871 \$	6,038

NOTE 11: EQUITY**(a) SHAREHOLDERS' EQUITY**

The Company is authorized to issue an unlimited number of common shares. As at December 31, 2020, the Company's common share capital consisted of 31,265,044 shares issued and outstanding (December 31, 2019 – 31,240,044 shares).

Each share entitles the holder to one vote at all meetings of shareholders.

The 6,282,222 Class B partnership units of IBI Group are indirectly exchangeable for common shares of the Company on the basis of one share of the Company for each Class B partnership unit. If all such Class B partnership units of IBI Group had been exchanged for shares on December 31, 2020, the units issued on such exchange would have represented a 16.73% interest in the Company.

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

Class B partnership units do not entitle the holder to voting rights at the meetings of shareholders, although the holder also holds an equal number of non-participating voting shares in the Company. The Class B partnership units have been recorded as a non-controlling interest in these consolidated financial statements as at December 31, 2020.

SHARE ISSUANCES

During the year ended December 31, 2020, the Company issued 25,000 common shares as a result of exercises of stock options granted in January 2016.

EARNINGS PER SHARE

For the purposes of calculating diluted earnings per share, any impact of the convertible rights on the convertible debentures are not included in the calculation of net income per common share or weighted average number of common shares outstanding as they would be anti-dilutive.

For the purposes of calculating diluted earnings per share, any impact of the stock options are included in the calculation of net income per common share or weighted average number of common shares outstanding.

	YEAR ENDED	
	DECEMBER 31,	
	2020	2019
Net income	\$ 17,681	\$ 16,849
Net income attributable to common shareholders	\$ 14,723	\$ 14,028
Weighted average common shares outstanding	31,246	31,229
Dilutive effect of Class B partnership units	6,282	6,282
Dilutive effect of stock options granted	284	258
Diluted weighted average common shares outstanding	37,812	37,769
Basic earnings per common share	\$ 0.47	\$ 0.45
Diluted earnings per common share	\$ 0.47	\$ 0.45

(b) NON-CONTROLLING INTEREST

Non-controlling interest in the Company's subsidiaries is exchangeable into the common shares of the Company on a one for one basis, subject to certain conditions. The movement in non-controlling interest is shown in the consolidated statement of changes in equity (deficit) for the year ended December 31, 2020.

The calculation of net income and total comprehensive income attributable to non-controlling interest is set out below:

	YEAR ENDED	
	DECEMBER 31,	
	2020	2019
Net income	\$ 17,681	\$ 16,849
Non-controlling interest share of ownership	16.73%	16.74%
Net income attributable to non-controlling interest	\$ 2,958	\$ 2,821

	YEAR ENDED	
	DECEMBER 31,	
	2020	2019
Total comprehensive income	\$ 16,922	\$ 12,730
Non-controlling interest share of ownership	16.73%	16.74%
Total comprehensive income attributable to non-controlling interest	\$ 2,831	\$ 2,131

NOTE 12: FINANCIAL RISK MANAGEMENT

The Company has exposure to market, credit and liquidity risk. The Company's primary risk management objective is to protect the Company's consolidated statement of financial position, income and comprehensive income and cash flow in support of sustainable growth and earnings. The Company's financial risk management activities are governed by financial policies that cover risk identification, tolerance, measurement, authorization levels, and reporting.

(a) MARKET RISK

In December 2019, a novel coronavirus disease ("COVID-19") was reported and in January 2020, the World Health Organization ("WHO") declared it as a Public Health Emergency of International Concern. On February 28, 2020 the WHO raised its assessment of the COVID-19 threat from high to very high at a global level due to the continued increase in the number of cases and affected countries and on March 11, 2020, the WHO characterized COVID-19 as a pandemic.

To date the Company has been able to operate under normal business conditions, however the broader implications of COVID-19 on the Company's results of operations and overall financial performance remain uncertain. The COVID-19 pandemic and its adverse effects have become more prevalent in the locations where IBI Group, the Company's customers, suppliers, and third party business partners conduct business. The Company may experience curtailed customer demand that could have a material adverse impact on the business, results of operations, and overall financial performance of future periods, specifically the Company may experience impacts from customers delaying consulting services and reduced market spending.

The duration and extent of the impact from the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the severity and transmission rate of the virus, the extent and effectiveness of containment actions, and the impact of these and other factors on our employees, customers, partners, and vendors.

INTEREST RATE RISK

The Company's credit facilities have floating-rate debt, which subjects it to interest rate cash flow risk. Advances under these credit facilities bear interest at a rate based on the Canadian dollar prime rate, LIBOR or banker's acceptance rates, plus, in each case, an applicable margin.

If the interest rate on the Company's variable rate loan balance as at December 31, 2020, had been 50 basis points higher or lower, with all other variables held constant, net income for the year ended December 31, 2020 would have decreased or increased by a nominal amount.

CURRENCY RISK

The Company's foreign exchange risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Company's policy has been to economically hedge foreign exchange exposures rather than purchasing currency swaps and forward foreign exchange contracts.

Foreign exchange gains or losses in the Company's net income arise on the translation of foreign-denominated intercompany loans held in the Company's Canadian operations and financial assets and liabilities held in the Company's foreign operations. The Company minimizes its exposure to foreign exchange fluctuations on these items by matching U.S dollar liabilities when possible.

If the exchange rates had been 100 basis points higher or lower as at December 31, 2020, with all other variables held constant, total comprehensive income would have increased or decreased by \$544 for the year ended December 31, 2020. If the exchange rates had been 100 basis points higher or lower as at December 31, 2020, with all other variables held constant, net income would have increased or decreased by \$62 for the year ended December 31, 2020.

(b) CREDIT RISK

Financial instruments that subject the Company to credit risk consist primarily of accounts receivable. The Company maintains an allowance for estimated credit losses on accounts receivable. The estimate is based on the best assessment of the ultimate collection of the related accounts receivable balance based, in part, on the age of the outstanding accounts receivable and on its historical impairment loss experience.

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

The Company provides services to diverse clients in various industries and sectors of the economy, and its credit risk is not concentrated in any particular client, industry, economic or geographic sector. In addition, management reviews accounts receivable past due on an ongoing basis with the objective of identifying matters that could potentially delay the collection of funds (at an early stage). The Company monitors accounts receivable with an internal target of working days of revenue in accounts receivable (a non-IFRS measure). At December 31, 2020 there were 63 working days of revenue in accounts receivable, the same for the 2019 period. The maximum exposure to credit risk, at the date of the consolidated statement of financial position to recognized financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the consolidated statement of financial position.

A significant portion of the accounts receivable are due from government and public institutions. Receivables that are neither past due nor impaired are considered by management to have no significant collection risk. The liquidity of customers and their ability to pay receivables are considered in assessing the impairment of such assets. No collateral is held in respect of impaired assets or assets that are past due but not impaired.

The aging of the accounts receivable are detailed below:

	AS AT	
	DECEMBER 31, 2020	DECEMBER 31, 2019
Current	\$ 56,843	\$ 43,838
30 to 90 days	\$ 36,241	36,642
Over 90 days	40,885	33,166
Gross accounts receivable	133,969	113,646
Allowance for impairment losses	(6,622)	(4,065)
Total	\$ 127,347	\$ 109,581

Changes in the allowance for impairment losses were as follows:

	AS AT	
	DECEMBER 31, 2020	DECEMBER 31, 2019
Balance at beginning of year	\$ (4,065)	\$ (10,148)
Provision for doubtful accounts	(3,857)	(2,375)
Amounts written-off	1,215	8,236
Effect of foreign currency exchange rate changes	85	222
Total	\$ (6,622)	\$ (4,065)

Impairment loss provision of contract assets is determined by applying a weighted average loss rate based on the Company's historical experience and informed credit assessment. The weighted average loss rate as at December 31, 2020 was 1.52% on contract assets for impairment loss of \$1,051 (December 31, 2019 – loss rate of 2.04% and impairment loss of \$1,323).

The Company, upon entering in a contract as the lessor assesses the credit risk of the lease receivable balance at the inception of the contract. The impact of the credit risk is included as part of the discount rate upon recording the asset on the statement of financial position. The Company assesses the asset for changes in the credit risk at each reporting period, with the impact of any gains and losses recognized on the statement of financial position. For the year ended December 31, 2020, no changes in credit risk were identified.

(c) LIQUIDITY RISK

The Company strives to maintain sufficient financial liquidity to withstand sudden adverse changes in economic circumstances. Management forecasts cash flows for its current and subsequent fiscal years to identify financing requirements. These requirements are then addressed through a combination of committed credit facilities (as described in Note 6 – Financial Instruments) and access to capital markets.

As a result of COVID-19 our existing cash may fluctuate as a result of the potential for increased collection risk and the risk of a slowdown in work to be completed and billed. However, based on the Company's current business plan and revenue prospects, the Company believes that the existing cash, anticipated cash flows from operations, and available credit facility will be sufficient to meet the working capital and operating resource expenditure requirements

On September 27, 2018, IBI Group signed an amendment to refinance its credit facilities with its senior lenders. (Refer to Note 6 – Financial Instruments).

As at December 31, 2020, a foreign subsidiary of the Company issued letters of credit in the amount of U.S \$2,300, which is equal to CAD \$2,981 (December 31, 2019 – CAD \$3,047). The Company has pledged U.S \$2,300 (December 31, 2019 – U.S \$2,300) of cash as security for these letters of credit issued by a foreign financial institution on behalf of the foreign subsidiary.

As at December 31, 2020, a foreign subsidiary of the Company issued letters of credit in the amount of INR 650,000, which is equal to CAD \$11 (December 31, 2019 – CAD \$nil). The Company has pledged INR 650,000 (December 31, 2019 – INR \$nil) of cash as security for these letters of credit issued by a foreign financial institution on behalf of the foreign subsidiary.

As at December 31, 2020, the Company has letters of credit outstanding of \$10,811 (December 31, 2019 - \$3,953), of which \$743 (December 31, 2019 - \$416) are outstanding with foreign institutions with the remaining \$10,068 (December 31, 2019 - \$3,537) being issued under a \$20,000 facility which matures on June 30, 2021 and supports letters of credit back stopped by Export Development Canada.

As at December 31, 2020, IBI Group has surety bonds outstanding of \$4,554 (December 31, 2019 - \$4,554), with Liberty Mutual Insurance. These bonds are security agreements necessary to backstop certain Intelligence projects in the U.S segment.

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

The company has the following contractual obligations as at December 31, 2020:

	YEAR ENDED DECEMBER 31, 2020				
	CARRYING AMOUNT	2021	2022 AND 2023	2024 AND 2025	2026 AND BEYOND
Accounts payable and accrued liabilities	\$ 57,979	\$ 57,979	\$ -	\$ -	-
Credit facilities	-	-	-	-	-
Interest on credit facilities	-	-	-	-	-
Convertible debentures	46,000	46,000	-	-	-
Interest on convertible debentures	-	104	-	-	-
Senior unsecured debentures	43,186	-	-	46,000	-
Interest on senior unsecured debenture	-	2,990	5,980	5,980	-
Total obligations	\$ 147,165	\$ 107,073	\$ 5,980	\$ 51,980	\$ -

(d) CAPITAL MANAGEMENT

The Company's objective in managing capital is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain future growth within the business. The Company defines its capital as the aggregate of credit facilities, convertible debentures and equity.

The Company's financing strategy is to access capital markets to raise debt and equity financing and utilize the banking market to provide committed term and operating credit facilities to support its short-term and long-term cash flow needs.

The Company has used the credit facilities to fund working capital. The credit facilities contain financial covenants including a leverage ratio, interest coverage ratio, minimum Adjusted EBITDA¹ threshold, and restrictions on distributions, if certain conditions are not met. The Company was in compliance with the credit facility covenants as at December 31, 2020.

(e) FAIR VALUE MEASUREMENTS

The fair values of accounts receivable, accounts payable and accrued liabilities, and investments approximate their carrying amounts due to their short-term maturity.

The fair value of the Company's credit facilities (net of deferred financing costs) approximate carrying value due to the variable rate of interest of the debt.

IFRS 7 *Financial Instruments – Disclosures*, requires disclosure of all financial instruments at fair value other than short term and carried at amortized cost, grouped in Levels 1 to 3, in the fair value hierarchy, based on the degree to which the fair value is observable. The three levels of the fair value hierarchy are:

- Level 1 – inputs derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – fair value derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

¹ As defined in the credit facilities agreement, references to "Adjusted EBITDA" is to earnings before interest, income taxes, depreciation and amortization; adjusted for gain/loss arising from extraordinary, unusual or non-recurring items; acquisition costs and deferred consideration revenue; non-cash expenses; gain/loss realized upon the disposal of capital property; gain/loss on foreign exchange translation; gain/loss on purchase or redemption of securities issued; gain/loss on fair valuation of financial instruments; amounts attributable to minority equity investments; IFRS lease accounting adjustments; and interest income. Adjusted EBITDA is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS, and the Company's method of calculating Adjusted EBITDA may differ from the methods used by other similar entities.

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

For financial instruments recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization at the end of each reporting period. There were no transfers between Level 1 and Level 2 for the year ended December 31, 2020 and December 31, 2019.

NOTE 13: CHANGE IN NON-CASH OPERATING WORKING CAPITAL

	YEAR ENDED DECEMBER 31,	
	2020	2019
Accounts receivable	\$ (16,739)	\$ 959
Contract assets	(2,154)	(3,122)
Prepaid expenses and other assets	(6,101)	(263)
Accounts payable and accrued liabilities	9,003	6,632
Contract liabilities	19,828	1,477
Net income taxes payable	3,807	2,574
Change in non-cash operating working capital	\$ 7,644	\$ 8,257

NOTE 14: FINANCE COSTS

	YEAR ENDED	
	DECEMBER 31,	
	2020	2019
Interest on credit facilities	1,246 \$	3,310
Interest on debentures	3,273	2,530
Non-cash accretion of convertible debentures	6,339	2,555
Interest on lease liability	3,862	4,264
Interest on lease receivable	(304)	(356)
Other	468	123
INTEREST EXPENSE	\$ 14,884	\$ 12,426
Amortization of deferred financing costs	\$ 414	\$ 457
Other	406	415
OTHER FINANCE COSTS	\$ 820	\$ 872
FINANCE COSTS	\$ 15,704	\$ 13,298

NOTE 15: CONTINGENCIES
(a) LEGAL MATTERS

In the normal course of business, the Company is a defendant in a number of lawsuits. The potential liability, if any, is not determinable and in management's opinion, it would not have a material effect on these consolidated financial statements, therefore no provisions have been recorded. During the year ended December 31, 2020, the Company recognized income related to the settlement of historical litigations.

(b) INDEMNIFICATIONS

The Company provides indemnifications and, in very limited circumstances, bonds, which are often standard contractual terms, to counterparties in transactions such as purchase and sale contracts for assets or shares, service agreements, and leasing transactions. The Company also indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. These indemnifications may require the Company to compensate the counterparty for costs incurred as a result of various events, including changes in or in the interpretation of laws and regulations, or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnifications will vary based upon the contract, the nature of which prevents the Company from making a reasonable estimate of the maximum potential amount that it could be required to pay to counterparties. The Company carries liability insurance, subject to certain deductibles and policy limits

that provides protection against certain insurable indemnifications. Historically, the Company has not made any significant payments under such indemnifications, and no provisions have been accrued in the accompanying consolidated financial statements with respect to these indemnifications as it is not probable that there will be an outflow of resources.

NOTE 16: ACQUISITIONS

On November 27, 2020, the Company completed the purchase of net assets of Cole Engineering Group Ltd. ("Cole"). Cole provides a complementary fit for the Company, offering consulting and advisory services in the water, transportation, urban development and environmental sectors.

The Company recognizes identifiable assets acquired and liabilities assumed in a business combination. Assets acquired and liabilities assumed are generally measured at their acquisition date fair values. Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the fair value of consideration transferred over the acquisition date fair values of identifiable net assets. The preliminary purchase equation and the preliminary fair value of net assets recognised as a result of the acquisition are as follows;

Amount settled in cash	7,742
Deferred consideration	<u>950</u>
Total Purchase consideration	8,692

Recognized amounts of identifiable net assets

Property, plant & equipment	498
Prepaid expenses	284
Intangible assets	2,241
Trade & other receivables	4,980
Contract assets	2,357
Contract liabilities	693
Trade & other payables	4,359
Net Identifiable assets acquired	<u>5,308</u>
Goodwill	3,384

DEFERRED CONSIDERATION

The purchase agreement included an additional consideration of one third of the operating earnings of Cole, (calculated on a consistent basis with Cole practices). Preliminary calculations suggest this amount to be \$950, subject to agreement with the seller. The additional consideration is payable on March 16, 2021. The \$950 deferred consideration liability is recognized on the acquisition date. As at December 31, 2020, there have been no changes in the deferred consideration payable as the final calculations are still

being determined under Cole's private company accounting practices as required by the purchase and sale agreement.

IDENTIFIABLE NET ASSETS

At November 27, 2020, the fair values of the acquired intangible assets amounted to \$2,241. The preliminary fair value of the trade and other receivables and work in progress acquired as part of the business combination amounted to \$4,980 and \$2,357 respectively.

GOODWILL

Goodwill recognized on the acquisition relates to the expected growth, synergies and value of Cole's workforce which cannot be separately recognized as an intangible asset. The goodwill is not expected to be deducted for tax purposes.

NET REVENUE AND NET INCOME CONTRIBUTION

Cole has contributed \$1,696 and (\$69) to the Company's net revenue and net income (loss) respectively from the acquisition date to December 31, 2020. Had the acquisition occurred on January 1, 2020, the Company's net revenue and net income for the year ended December 31, 2020 would have been \$419,152 and \$19,639 respectively. These amounts are determined by applying the Company's accounting policies and adjusting the results of Cole to reflect additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied from January 1, 2020, together with their related consequential tax effects.

NOTE 17: LEASES

The Company has leases which include real estate leases for office space, equipment and vehicle leases. With the exception of short-term leases and leases of low value underlying assets, the Company has recognized a lease liability and right-of-use asset based on the present value of the remaining lease payments discounted using the Company's incremental borrowing rate.

The Company has applied its best judgement to determine the lease term for lease contracts in which it is a lessee that includes renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which affects the amount of lease liability and right-of-use asset recognized.

For sub-lease contracts where the Company is a lessor, the Company has assessed the classification of the sub-lease with reference to the right-of-use asset. The Company concluded that the sub-leases are finance leases under IFRS 16 and has recognized a lease receivable with a corresponding reduction in the right-of-use asset recognized on the head lease.

RIGHT OF USE ASSETS

The following tables represents the carrying value of the right-of-use assets as at December 31, 2020 and 2019:

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

	Right-of-Use Assets			
	Real Estate Lease	Equipment	Vehicles	Total
Balance as at January 1, 2020	\$ 61,113	\$ 2,155	\$ 122	\$ 63,390
Additions	5,756	192	44	5,992
Allocation to lease receivable due to new sublease agreements	(249)	-	-	(249)
Depreciation	(11,930)	(815)	(70)	(12,815)
Impairment	(782)	-	-	(782)
Foreign exchange gain (loss)	(116)	(6)	(1)	(123)
Balance as at December 31, 2020	\$ 53,792	\$ 1,526	\$ 95	\$ 55,413

	Right-of-Use Assets			
	Real Estate Lease	Equipment	Vehicles	Total
Balance as at January 1, 2019	\$ 72,532	\$ 1,931	\$ 198	\$ 74,661
Additions	4,289	949	-	5,238
Allocation to lease receivable due to new sublease agreements	(2,574)	-	-	(2,574)
Depreciation	(11,805)	(639)	(62)	(12,506)
Impairment	(268)	-	-	(268)
Foreign exchange gain (loss)	(1,061)	(86)	(14)	(1,161)
Balance as at December 31, 2019	\$ 61,113	\$ 2,155	\$ 122	\$ 63,390

The impairment was a result of a real estate sublease that impacted the recovery of the right-of-use asset.

LEASE LIABILITIES

The following tables represents the carrying value of the lease liabilities as at December 31, 2020 and 2019:

Lease Liabilities	
Balance as at January 1, 2020	\$ 80,047
Additions	5,198
Lease Payments	(13,228)
Foreign exchange gain (loss)	(189)
Balance as at December 31, 2020	\$ 71,828

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

For the year end December 31, 2020, the Company collected total principal receipts of \$607 in relation to subleases.

Lease Liabilities	
Balance as at January 1, 2019	\$ 83,583
Additions	5,238
Change in net present value	(246)
Lease Payments	(7,154)
Foreign exchange gain (loss)	(1,374)
Balance as at December 31, 2019	\$ 80,047

The following table represents the carrying value of the Company's total lease liabilities as well as the undiscounted cash flows for each of the next 5 years and beyond:

	YEAR ENDED DECEMBER 31, 2020				
	CARRYING AMOUNT	2021	2022 AND 2023	2024 AND 2025	2026 AND BEYOND
Lease Liability	\$ 71,828	\$ 16,585	\$ 27,665	\$ 18,958	\$ 20,296

	YEAR ENDED DECEMBER 31, 2019				
	CARRYING AMOUNT	2020	2021 AND 2022	2023 AND 2024	2025 AND BEYOND
Lease Liability	\$ 80,047	\$ 16,653	\$ 31,179	\$ 20,135	\$ 27,146

The difference between the carrying value of the lease liability and the total undiscounted cash flows represents the unpaid interest expense relating to the lease liability payments which will ultimately be recognized as part of interest.

LEASE RECEIVABLES

The following table represents the carrying value of the Company's total finance leases as well as the undiscounted cash flows for each of the next 5 years and beyond:

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

	YEAR ENDED DECEMBER 31, 2020				
	CARRYING AMOUNT	2021	2022 AND 2023	2024 AND 2025	2026 AND BEYOND
Lease receivable	\$ 5,487	\$ 2,175	\$ 3,305	\$ 227	\$ 5

	YEAR ENDED DECEMBER 31, 2019				
	CARRYING AMOUNT	2020	2021 AND 2022	2023 AND 2024	2025 AND BEYOND
Lease receivable	\$ 6.728	\$ 666	\$ 4.603	\$ 2.108	\$ 9

The difference between the carrying value of the finance leases and the total undiscounted cash flows represents the unearned finance income relating to the lease receivable payments which will ultimately be recognized as part of interest.

PERIOD IMPACT

During the year ended December 31, 2020, the Company recognized on the statement of profit or loss depreciation expenses on its right-of-use assets of \$12,815 (December 31, 2019 - \$12,506) and net interest expense on its lease liabilities and receivables of \$3,558 (December 31, 2019 - \$3,908). The Company recognized in other operating expenses \$4,070 (December 31, 2019 - \$2,896) in relation to leases exempted from IFRS 16 with \$3,821 (December 31, 2019 - \$2,724) relating to leasing of low value assets and \$249 (December 31, 2019 - \$172) related to short term leases.

NOTE 18: DEFERRED SHARE PLAN

The Company offers a deferred share plan ("DSP") for independent members of the Board of Directors ("Board"). Under the DSP, directors of the Company may elect to allocate all or a portion of their annual compensation in the form of deferred shares rather than cash. These shares are fully vested upon issuance and are recorded as a financial liability at FVTPL in the consolidated statement of financial position amounting to \$4,085 (December 31, 2019 - \$2,709). Directors can only redeem their DSPs for shares when they leave the Board.

During the year ended December 31, 2020, the Company granted 76,961 deferred shares (December 31, 2019 – 81,608) and redeemed 45,153 deferred shares (December 31, 2019 – nil), for a total of 498,914 deferred shares outstanding as at December 31, 2020 (December 31, 2019 – 467,106). Compensation expense for the year ended December 31, 2020 related to the deferred shares was an expense of \$1,560 (December 31, 2019 – \$1,028). There is no unrecognized compensation expense related to deferred shares, since these awards vest immediately when granted.

The table below shows the DSP transactions for the year ended December 31, 2020:

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

	DEFERRED SHARES	FAIR VALUE
Balance, January 1, 2020	467,106 \$	2,709
Deferred shares issued	76,961	401
Deferred shares redeemed	(45,153)	(184)
Change in fair value due to share price	-	1,159
BALANCE, DECEMBER 31, 2020	498,914 \$	4,085

The table below shows the DSP transactions for the year ended December 31, 2019:

	DEFERRED SHARES	FAIR VALUE
Balance, January 1, 2019	385,498 \$	1,681
Deferred shares issued	81,608	461
Deferred shares redeemed	-	-
Change in fair value due to share price	-	567
BALANCE, DECEMBER 31, 2019	467,106 \$	2,709

NOTE 19: SHARE-BASED COMPENSATION**EQUITY SETTLED TRANSACTIONS***Stock Options*

The Company has an equity-settled stock option plan. The grant-date fair value of the stock options is recognized as salaries, fees and employee expenses, with a corresponding increase to capital reserve over the vesting period of the stock options. Market conditions are reflected in the initial measurement of fair-value, with no subsequent true-up for differences between expected and actual outcomes.

Under the terms of the Company's stock option plan, the options vest evenly over a three year period on each of the first, second and third anniversary dates of the grant, and expire on the tenth anniversary of the date of the grant, and are measured using the Black-Scholes model.

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

During the year end December 31, 2020, the Company was authorized to increase the total number of shares issuable under the stock option plan from 1,755,268 to 2,555,268. As at December 31, 2020, there were 832,909 options available for further issuance under the stock option plan.

The following inputs were used in the measurement of the fair values at the grant date of the options:

Grant date	Options issued	Fair value at grant date	Share price at grant date	Exercise price	Expected volatility (weighted average)	Expected life (weighted average)	Expected dividends	Risk-free interest rate
January 15, 2016	535,000	\$ 1.14 - 1.17	\$ 2.13	\$ 2.33	60.2 - 64.2%	5.5 - 6.5 years	0%	0.64 - 0.81%
May 25, 2016	99,213	\$ 2.63 - 6.67	\$ 4.53	\$ 4.49	62.3 - 66.9%	5.5 - 6.5 years	0%	0.86 - 0.99%
May 12, 2017	69,107	\$ 4.31 - 4.39	\$ 7.30	\$ 7.01	62.8 - 67.1%	5.5 - 6.5 years	0%	1.07 - 1.20%
July 17, 2017	316,500	\$ 3.88 - 3.97	\$ 6.63	\$ 6.63	62.8 - 67.0%	5.5 - 6.5 years	0%	1.55 - 1.64%
August 9, 2017	77,315	\$ 3.97 - 4.05	\$ 6.77	\$ 6.79	62.8 - 67.0%	5.5 - 6.5 years	0%	1.57 - 1.66%
March 20, 2018	71,942	\$ 4.26 - 4.37	\$ 7.24	\$ 7.24	62.7 - 66.6%	5.5 - 6.5 years	0%	2.00 - 2.03%
May 9, 2018	69,500	\$ 4.56 - 4.66	\$ 7.65	\$ 7.49	62.4 - 66.6%	5.5 - 6.5 years	0%	2.22 - 2.26%
March 6, 2019	156,464	\$ 2.47 - 2.70	\$ 4.41	\$ 4.49	61.2 - 63.7%	5.5 - 6.5 years	0%	1.70 - 1.72%
May 9, 2019	90,500	\$ 2.68 - 2.97	\$ 4.96	\$ 4.98	60.3 - 63.1%	5.5 - 6.5 years	0%	1.56 - 1.59%
March 4, 2020	131,485	\$ 2.21 - 2.82	\$ 5.12	\$ 5.16	46.5 - 59.5%	5.5 - 6.5 years	0%	0.89 - 0.90%
May 6, 2020	139,000	\$ 1.79 - 2.25	\$ 4.00	\$ 4.11	48.3 - 58.2%	5.5 - 6.5 years	0%	0.43 - 0.44%
May 13, 2020	15,000	\$ 1.72 - 2.19	\$ 3.76	\$ 4.00	47.6 - 58.2%	5.5 - 6.5 years	0%	0.38 - 0.39%

Expected volatility is based on an evaluation of the historical volatility of the Company's share price over the historical period commensurate with the expected term. The expected term of the instruments has been based on general option-holder behavior.

IBI GROUP INC.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(in thousands of Canadian dollars, except per share and share amounts)*

For the year ended December 31, 2020, the Company has recognized an expense of \$732 (year ended December 31, 2019 - \$897) in salaries, fees and employee benefits for stock options in the consolidated statement of income and comprehensive income.

The following stock option arrangements were in existence as at December 31, 2020:

Grant date	Expiry date	Options issued	Options exercised	Options cancelled/ forfeited	Options outstanding	Options exercisable	Exercise price	Fair value at grant date
15-Jan-16	15-Jan-26	535,000	49,167	27,500	458,333	458,333	\$ 2.33	\$ 618,816
25-May-16	25-May-26	99,213	-	-	99,213	99,213	\$ 4.49	\$ 262,253
16-May-17	16-May-27	69,107	-	-	69,107	69,107	\$ 7.01	\$ 300,846
17-Jul-17	17-Jul-27	316,500	-	21,167	295,333	295,333	\$ 6.63	\$ 1,245,954
9-Aug-17	9-Aug-27	77,315	-	-	77,315	77,315	\$ 6.79	\$ 310,550
20-Mar-18	20-Mar-28	71,942	-	-	71,942	47,961	\$ 7.24	\$ 310,550
9-May-18	9-May-28	69,500	-	-	69,500	46,333	\$ 7.49	\$ 320,627
6-Mar-19	6-Mar-29	156,464	-	-	156,464	52,155	\$ 4.49	\$ 406,650
9-May-19	9-May-29	90,500	-	-	90,500	30,167	\$ 4.98	\$ 257,110
4-Mar-20	4-Mar-30	131,485	-	-	131,485	-	\$ 5.16	\$ 327,398
6-May-20	6-May-30	139,000	-	-	139,000	-	\$ 4.11	\$ 278,371
13-May-20	13-May-30	15,000	-	-	15,000	-	\$ 4.00	\$ 29,050
		1,771,026	49,167	48,667	1,673,192	1,175,917	\$ 4.77	\$ 4,668,175

Performance share units

On August 9, 2017, the Company adopted a PSU plan for senior executives. Under that plan, the Board of Directors may grant PSUs to participants which entitles them to receive one common share for each PSU. The vesting and performance conditions are determined by the Board of Directors at the time of each grant.

The Company has recognized for the year ended December 31, 2020 an expense of \$388 (year ended December 31, 2019 – \$599) in salaries, fees and employee benefits for PSUs in the consolidated statement of income and comprehensive income.

NOTE 20: SUBSEQUENT EVENTS**ACQUISITION OF PETER'S ENERGY SOLUTIONS INC.**

On February 2, 2021, the Company acquired 100% of the issued shares in Peter's Energy Solutions Inc. (Peter's Energy) for consideration of \$676. Peter's Energy is a consulting firm focused on renewable energy solutions including solar, wind and energy storage, and the environmental, regulatory and economic considerations of planning, designing and delivering green energy solutions. The acquisition complements the Company's existing energy management business and augments the firm's work in sustainable community development. Included in the consideration is an estimated amount of deferred consideration over a three year period based on a percentage of Adjusted EBITDA¹.

¹ As defined in the credit facilities agreement, references to "Adjusted EBITDA" is to earnings before interest, income taxes, depreciation and amortization; adjusted for gain/loss arising from extraordinary, unusual or non-recurring items; acquisition costs and deferred consideration revenue; non-cash expenses; gain/loss realized upon the disposal of capital property; gain/loss on foreign exchange translation; gain/loss on purchase or redemption of securities issued; gain/loss on fair valuation of financial instruments; amounts attributable to minority equity investments; IFRS lease accounting adjustments; and interest income. Adjusted EBITDA is not a recognized measure under IFRS and does not have a standardized meaning prescribed by IFRS, and the Company's method of calculating Adjusted EBITDA may differ from the methods used by other similar entities.



Defining the cities
of tomorrow



We are a technology-driven
design firm